

Thrift Bulletin

Handbook: Thrift Activities
Subjects: Loan Refinancing

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Loan Refinancing

Summary: This bulletin clarifies the Office of Thrift Supervision's (OTS) policy on refinancing and renegotiating loans where market interest rates have declined, including loans secured by real estate collateral that has declined in value.

For Further Information Contact: Your Regional Office, or Supervision Policy (Credit Risk), Washington, D.C.

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Background

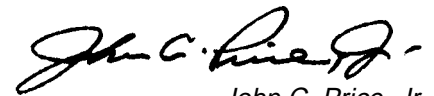
Declining interest rates may make refinancing of loans appealing to borrowers whose present contractual interest rates are higher than market interest rates. In some parts of the country, however, the value of the collateral pledged on many

loans, particularly real estate loans, may have declined. Due to a misunderstanding of OTS's policy, some lending institutions may be reluctant to refinance or renegotiate interest rates on real estate loans where collateral values have declined.

General Policy

The OTS encourages savings associations to work constructively with creditworthy borrowers, including the refinancing of real estate-related loans that result in an adjustment of

interest rates to current market rates. The OTS will not criticize an institution solely for refinancing or renegotiating a loan to current market rates, even if the collateral has declined in value. Refinanced and renegotiated loans will be evaluated based on the borrower's creditworthiness and repayment capacity.



—John C. Price, Jr.
Acting Assistant
Director for Policy